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SUBJECT: SENATOR BAUCUS'S VISIT TO THE UAE

Classified by Ambassador Richard Olson, reasons 1.4 (b) and (d).

11. (U) This is a joint Embassy Abu Dhabi - Consulate General Dubai cable.

Summary

12. (C) During his December 13-15 visit to the United Arab Emirates, Senator Max Baucus (D-MT) and accompanying delegation from the Senate Finance Committee staff met with senior government and financial leaders to discuss bilateral political and economic relations, the impact of the global financial crisis, and the UAE's development goals. UAE officials said they are working to improve relations with Congress and hope the 123 agreement will be approved "soon." Baucus asked his interlocutors for their advice to the new U.S. President and Congress; many expressed their hope that the Arab-Israeli issue could be solved. End Summary.

13. (SBU) In Abu Dhabi, Senator Baucus, joined by the Ambassador, met with Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed Al Nahyan (reported septel), Minister of Foreign Trade Sheikha Lubna Al Qasimi, Minister of State for Foreign Affairs Dr. Anwar Gargash, Abu Dhabi Investment Authority Chief Investment Officer Jean-Paul Villain, Masdar Future Energy Company CEO Dr. Sultan Al Jaber, and Mubadala CEO Khaldoon Al Mubarak. In Dubai, the Senator met with UAE Vice President, Prime minister and Dubai Ruler Sheikh Mohammed bin Rashid al Maktoum (MbR), had an extensive discussion with members of the American business community and addressed students at Zayed University.

U.S. PERCEPTION OF THE UAE

14. (C) Baucus told his interlocutors that many in the United States, particularly in Congress, are not aware of the depth of US-UAE cooperation. Baucus urged the UAE to do more to educate Americans about the country. Sheikha Lubna agreed that general perceptions about the Middle East influence opinions and that the UAE was at fault for not visiting more of the United States, particularly those states in which the UAE had made investments. Mubadala CEO Khaldoon al Mubarak praised US-UAE government, private sector and security cooperation, but said unfortunately the warmth of this relationship has not always extended to Congress.

123 AGREEMENT

15. (C) Sheikha Lubna noted recent press articles about US-UAE efforts to conclude a 123 Agreement for nuclear cooperation. She argued the UAE had cooperated on many sensitive export control and nonproliferation issues and asked that the Administration convey this to Congress. Failure to conclude the agreement would only ensure that the UAE turns to the UK or France for technology cooperation. Al Mubarak said the UAE is actively working on its Congressional engagement. Officials will continue to explain future nuclear energy needs (20-25 percent of total electricity generation), with the hope of finalizing the 123 agreement "very soon." Al Mubarak said there is U.S.-UAE cooperation on many technologies (e.g., energy, aerospace, health) and stressed the long-term opportunities for nuclear cooperation.

ABU DHABI AND DUBAI FINANCIAL ISSUES

¶16. (C) ADIA officials told Baucus that ADIA had done better than many US pension funds because the sovereign wealth fund (SWF) had "totally avoided" exposure to sub-prime investments and had not invested in corporate credit. Chief Investment Officer Jean-Paul Villain said ADIA returns are generally similar to those of Yale's endowment. (Note: Yale reported on December 16 that it had lost 13.4 percent between July and October. End Note.) Although ADIA (like other SWFs) was not historically leveraged, Villain said today it is very efficient to be leveraged.

¶17. (C) ADIA officials opined that Dubai has a debt problem, particularly in the real estate sector. Villain told Baucus there was too much investment in luxury properties, despite high demand for small apartments. He predicted that the northern emirates would suffer more than Dubai from declines in the real estate market, as commuter residents would move into Dubai as prices fell. Villain criticized some large Dubai infrastructure projects (e.g. airport, metro) that were financed with cheaper short term capital although they will have long term returns. While Abu Dhabi can help its brother emirate, ADIA officials said there will be conditions on any assistance.

GLOBAL FINANCIAL CRISIS

¶18. (C) Global stimulus plans, though some were initially unclear, have allowed the world economy to return to "normal" and purchasing power is on the rise. ADIA officials said those firms that do

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survive the downturn will exit the crisis much stronger. Villain noted that greater pricing transparency in the credit default swap market would attract more investment. Several officials told Baucus that they thought the proposed bailout for the U.S. auto industry is a "must," due to unemployment concerns, but said the industry is obviously not competitive. Mubadala COO Waleed Al Mokarrab told Baucus that, given global economic ties, the United States must "come roaring back," with a transparent regulatory framework. He and Al Mubarak praised the recent CFIUS revisions, noting that fair, static and transparent regulations encourage greater foreign direct investment. Mubadala will be looking at opportunities across asset classes, but everyone has been affected by the downturn.

ADVICE FOR THE NEW PRESIDENT AND CONGRESS

¶19. (C) Iran: MinState for Foreign Affairs Gargash complimented Secretary Rice's efforts to keep Gulf countries informed about U.S. policy on Iran, noting that partners need -- and deserve -- such explanations. GCC foreign ministers remain concerned about the next round of incentives for Iran, particularly European intentions. He warned that Iran is very aggressive diplomatically and uses the media to advance these efforts.

¶10. (C) Peace Process: Dubai Ruler Sheikh Mohammed bin Rashid expressed optimism over the Peace Process, but advocated for greater engagement with the Palestinians. He reminded Senator Baucus of the UAE's commitment to supporting Abu Mazen, but encouraged us not to shut out Hamas. MinState Gargash said the United States must engage robustly and early on the Peace Process, so that we build on existing progress. The Arab Peace Initiative is still on the table, and Sheikha Lubna noted that the Middle East represented a great market for Israel.

¶11. (C) U.S.-UAE Free Trade Agreement/Labor Issues: Sheikha Lubna expressed an interest in the status of trade promotion authority in ¶2009. Baucus said he would support it, but cautioned that the UAE cannot expect a "carve-out" for oil and gas and must be prepared to address labor concerns. Sheikha Lubna said the UAE is working to address some labor issues, but unionization is "hard for us." Gargash told Baucus that the UAE is striving to improve living conditions for expatriate workers, and will work to meeting all UN

Labor standards except those relating to labor unions and the right of collective bargaining (on the ground that unions and collective bargaining would constitute a national security threat in a country where the vast majority of workers are not citizens). Sheikha Lubna added that the UAE is a great gateway for US products to the region and noted that the UAE is primarily a capital exporter to the United States. Liberalization -- in the form of reduced trade barriers, documentation and visa difficulties -- is good for business.

¶12. (C) Renewable Energy: Masdar CEO Al Jaber said the United States should be a model for alternative energy, given its demonstrated competitive advantage in education and research and development. Despite falling oil prices, the UAE will continue its efforts to develop a knowledge-based economy, including its focus on alternative energy. Al Jaber suggested the USG develop a model for public private partnerships that rewards innovation based on actual power generation. Masdar continues to seek investment opportunities in the United States.

¶13. (C) US Business Interests: During a breakfast hosted by the American Business Council in Dubai, the Senator also discussed objectives for a new Administration and Congress. He heard strong views on how the US tax code creates disincentives for US firms to hire Americans abroad, and the importance of the Congress not to respond to the current economic crisis by turning to anti-trade and other protectionist approaches.

UAE AS A MODEL

¶14. (C) Echoing what Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed told Baucus (septel), Gargash said the UAE is a modern successful Islamic country breaking stereotypes. Al Mubarak said Abu Dhabi has taken steps to upgrade its health infrastructure, including universal health insurance, and invested in education. Abu Dhabi aims to break the ranks of the top five governments "in every category," by measuring its restructuring, privatization and service performance efforts against international metrics. Because human resources remain a challenge, al Mubarak said Abu Dhabi is also investing heavily in education. These reform efforts have been so successful that it is not uncommon to find Abu Dhabi policies and regulations being modeled -- if not copied -- in other parts of the Arab world.

¶15. (U) Senator Baucus was accompanied by:
-- William Dauster, Senate Finance Committee (SFC), Professional Staff Member (PSM)
-- Demetrios Marantis, SFC PSM
-- Carol Guthrie, SFC PSM
-- Melodee Hanes, SFC PSM
-- Janis Lazda, SFC PSM
-- Jonathan Selib, SFC PSM

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-- Chelsea Thomas, SFC PSM
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